June 17, 2011

Re: Aetna Life Insurance Co.
Aetna Tracking Numbers: CA SG ALIC 070111
State Tracking Numbers: PF-2011-00827

Responses to the questions provided on June 10, 2011 as they pertain to our filing effective July 1, 2011 are discussed below.

1. **Product Descriptions.** Furnish descriptions of each product in this filing.
   Please see the "01-Product Descriptions" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls"

2. **Changes to Benefits.** Describe changes to benefits over the past 12 months, if any, indicating which of these are mandated, and the rate impact of each of those changes.
   Please see the "02 Changes to Benefits" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls"

3. **Rate Increase History.** In a single table, provide for each product the amounts and dates of past rate increases implemented since the product was first marketed, and whether the product is now open or closed. Note any change in benefits.
   Please see the "03 Rate Increase History" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls"

4. **Intent to File for Future Rate Increases.** When does the company intend to file for its next round of rate increases for small group policies?
   We intend to file for our next round of rate increases for effective dates beginning 10/1/11.

5. **Filed Rate Changes.** For each product, provide the average, minimum and maximum tabular rate changes proposed:
   a. For the current filings
   b. For all filings cumulatively during the twelve-month period ending with the next renewal date, according to the policies' anniversary dates.
   Please see the "05-Filed Rate Changes" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

6. **Rate Caps.** Describe the action of rate caps, if any.
   Not applicable for Small Group.

7. **Development of Annual Rate Increase Percentage** (from the Certification): The rate increase for members renewing between 7/1/2011 and 9/30/2011 is based on data (10/09 – 09/10) that is not current. This is not acceptable (Exhibit C-2). Also, data in the exhibit should reflect the company's entire service area in California.

Revise Exhibit C-2 in Excel to reflect a more recent experience period ending no earlier than 11/30/10. Where the value of a cell is not given by a formula, the source of the value should be explained. Show in the exhibit any adjustments to pricing made for large claim pooling, selection, credibility, seasonality, leveraging or benefit change.

Per our phone conversation, the experience used for this analysis was based on claims paid through December 31, 2010 and incurred October 2009-September 2010. At the time this analysis was done, this period reflected the available data. The January paid claim data was also available at this time but the company deemed the data was not suitable for pricing as there were issues/concerns with how the data was processed in our systems. As a result, it was recommended that the January paid claims not be used for pricing. As a result, we used claims paid through December 2010.

The pricing model uses actual claim experience normalized for seasonality and benefit changes. We do not adjust for large claim pooling, selection, credibility or leveraging.

Exhibit C-2 has been updated to reflect the data for the entire company for California Small Group. See "3Q11 CA MPC Details & Alternate Rating Formula Summary r2 ALIC.xls".

8. **Development of Annual Rate Increase Percentage** (from the Certification): The midpoints of the experience and rating periods should be determined by weighting the months in the periods according to membership. The revised Excel exhibit should reflect this change.
   See "3Q11 CA MPC Details & Alternate Rating Formula Summary r2 ALIC.xls". This exhibit has been updated to reflect the data for the entire company for California Small Group. The midpoints of the experience and rating periods have been determined by weighting the months in the periods according to membership. The details supporting this can be found in the file referenced above.

9. **Annual Rate** (from the California Rate Filing Form Item #10**):** Provide an exhibit showing the percent change from current rate to proposed rate for each cell.
   See attached file for comparison of each rate cell. "3Q11 CA PPO Rate Filing Form (Q.10 Rate Compare) r2.xls"

10. **Annual rate increase distribution by employer:** Create four or more bands according to the size of the employer's rate increase. Indicate the number of groups and members in each band.
    Please see the "10-Annual Rate Inc Dist by ER" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

11. **Enrollment summary.** Provide total monthly member enrollment of all small group policies (including policies not covered by this filing) from 1/2006 forward by closed

block and open block. Show separately enrollment for policies under the supervision of DMHC. Show historical sales and lapses.
Please see the "11-Enrollment Summary" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

12. **Risk Adjustment Factor.** Describe the process by which risk adjustment factors are computed for renewing groups. Show the changes to average RAF over the past four quarters.
Please see the "CA-Medical Rate up Documentation.PDF" & "CA - NB Medical_UW_Rate_Up.xls" for an explanation of our New Business and Renewal Rate up methodology. See the "12-Risk Adjustment Factor" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls" for the average RAF change over the past 6 quarters.

13. **Impact of Area Definition Change** from rate filing PF-2010-02424 effective 4/1/2011. Describe the impact of this change on rates.

14. **Attribution Analysis.** For each product, identify the components of the filed rate change according to the following sources:
    a. Actual to expected claim experience during base period of new rate filing,
    b. Secular trend (detail below),
    c. Leveraging
    d. Average length of projection period used to calculate trend,
    e. Risk / demographic change (detail below)

15. **Secular Trend Detail**
    a. For trend from CY2010 to 2011, show pmpm cost and utilization breakout by aggregate benefit category, i.e. hospital inpatient, hospital outpatient (including emergency room), physician and other professional services, prescription drugs from pharmacies, laboratory services (other than hospital inpatient), radiology services (other than hospital inpatient), other (describe)(SB1163, SEC. 7. 10181.3(b)(18)).
    Please see the "15-Secular Trend" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls". Note that this exhibit also contains the detail requested in part c.

    There was a discrepancy between the results provided in our previous submission between the inpatient Secular trend and the trends provided for questions 17 B&C. The discrepancy was due to the different time periods used to calculate the trends for each question. Question 15 and 17 B&C have been modified to reflect the same time period.

    b. State the degree of credibility of experience data used in estimating medical trend inflation.
    Aetna develops medical trend estimates based on fully insured California group PPO data for all sized groups combined. The Small Group data is

included in these estimates. The overall group data used to develop trends is 100% credible.

c. Show the same breakout for trend from CY2009 to 2010, and CY2008 to 2009.
Please see the "15-Secular Trend" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

d. For CY2010 to 2011, further allocate cost and /or utilization trends by pure inflation and change in mix of services
Unit cost projections are based on an analysis of provider contracts and represent estimates of the cost of inflation in provider rates. The impact of changes in the mix of services is implicitly reflected in the projected utilization trends. Utilization trends tend to be fairly volatile from year to year at the benefit category level. As such, we develop utilization trends with a focus on the resulting trend assumptions and the reasonableness of these aggregate assumptions in relation to recent trend experience at a national level. Projected utilization trends are intended to account for changes in mix of services but we are unable to split the projections into components that are more refined than total assumed utilization change by aggregate benefit category.

16. **Risk / demographic change.** Show detail for cost and utilization changes within the plan population due to changes in gender mix, average age, duration, internal plan mix, inter-plan mix, and any other relevant variables.
Not applicable to how we do our pricing for Small Group. These estimates are typically performed at a national level and have not been reviewed in light of recent experience. We also do not calculate the impact of mix on utilization. Due to the challenges of thoroughly understanding mix and how it impacts medical costs, we have opted to rely on group experience and cost projections to develop trend assumptions which are then used to develop pricing for our small group business.

17. **Contractual Increases**

a. Provide an exhibit showing the contractual increases for 2011 by rating area for inpatient and outpatient services. Show the weights assigned to each increase.
Please see the "17a-Facility Contract Increases" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

b. For each type of inpatient service (medical, surgical etc) in 2009 and 2010, show days per member per year, cost per patient per day, and the associated trends, including the breakout between trend in unit cost and utilization / mix. Calculate the total mix shift.
Please see the "17bc-Facility Trend Detail" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

c. For each type of outpatient service (ER, surgical etc) in 2009 and 2010, show days per member per year, cost per patient per day, and the associated trends, including the breakout between trend in unit cost and utilization / mix. Calculate the total mix shift.
Please see the "17bc-Facility Trend Detail" tab in the accompanying file "CA 3Q11 ALIC responses to 05-13-11 Questions r2.xls".

d. What actions has Aetna taken in the interest of policyholders to ensure the lowest negotiated prices from hospitals and out-patient facilities?
Please see the accompanying file "Questions 17d and 18.pdf".

18. Drivers of Medical Trend

a. Describe the significant economic, social and medical developments that have been driving Aetna's *in-patient* price inflation in the recent past. For each of these developments, explain at what level it should reasonably be expected to continue in future, and why.
Please see the accompanying file "Questions 17d and 18.pdf".

b. Describe the significant economic, social and medical developments that have been driving Aetna's *out-patient* price inflation in the recent past. For each of these developments, explain at what level it should reasonably be expected to continue in future, and why.
Please see the accompanying file "Questions 17d and 18.pdf".

c. Describe the significant economic, social and medical developments that have been driving Aetna members' increasing utilization in the recent past. For each of these developments, explain at what level it should reasonably be expected to continue in future, and why.
Please see the accompanying file "Questions 17d and 18.pdf".

d. Describe whether and how the independent actuary (Milliman) has independently observed these medical trends and whether it includes them in its pricing model.
Please see the accompanying file "Questions 17d and 18.pdf".

19. Co-pays. Indicate whether office co-pays are included in the out-of-pocket maximum.
Copay's are included in the out of pocket maximum for HSA plans only.

20. Medical Loss Ratio per PPACA. The Department requires a Medical Loss Ratio (MLR) exhibit according to the guidance issued by the Department of Health and Human Services (HHS) on 11/18/2010. The MLR exhibit should show *by month* actual 2010 experience and the prospective experience in 2011 of the market segment relevant to plans being filed (i.e., *all small-group plans*, including those not included in the current filing). Experience includes breakouts by enrollment, incurred claims and earned premium. Breakouts should also be by open block and closed block. All

small-group plans will be aggregated for the purposes of MLR calculation, and the MLR will be calculated in accordance with the HHS regulation.
See "3Q11 CA MLR Exhibit ALIC R2.xls". The MLR report has been revised to show monthly results for 2010 and 2011 calendar years.

21. **Additional information required per Guidance 1163:2**. Note that the final version of Guidance 1163:2 was released on April 5. 2011. Provide the following per Section A of the Guidance: the nature and amount of transactions between the filing insurer and any affiliates over the prior three years.
See "ALIC CA Affiliates 2007-09.pdf" & "ALIC CA Affiliates 2010.pdf"

22. **Additional information required per Guidance 1163:2**. Provide the following per Section A of the Guidance for: Aetna Life Insurance Company, its California health business, and the Small Group medical block in California
    a. For 2008, 2009 and 2010: the post-tax statutory net income, statutory capital and surplus, and RBC authorized control level according to the Annual Statement of the Aetna Life Insurance Company.
    See table below.
    b. The anticipated post-tax statutory net income, statutory capital and surplus, and RBC authorized control level anticipated for the company in 2011.

For Aetna Life Insurance Company:

($ Millions)

Year	Net Income	Capital and Surplus	Authorized Control Level Risk-Based Capital
2008	$ 951.2	$ 3,743.5	$ 552.0
2009	882.6	4,858.2	651.5
2010	1,193.1	4,182.4	572.6
2011 Forecast	1,088.0	4,691.0	563.6

For the California health business:
Aetna is not required to prepare most of this information for reporting purposes. As such, much of the requested detail is not available. We can provide the 2010 net income as reported in the NAIC Supplemental Health Care Exhibit – which is 19.0 million.

For the California Small Group medical block:
Aetna is not required to prepare this information for reporting purposes. As such, the requested detail is not available.

23. **Additional information required per Guidance 1163:2**. Provide the following per Section A of the Guidance:
    a. The annual compensation of each of the 10 most highly paid executives of both the insurer submitting the rate filing and the parent corporation / ultimate controlling party of that insurer.
    Please see "Aetna 2011 Proxy Statement pages 56-58.pdf" for a summary of 2010 executive compensation from Aetna's 2011 Proxy Statement.

24. Additional information required per Guidance 1163:2. The California Plain Language Rate Filing Description requires cost information as a percentage of Medicare. Please coordinate your response with that of Mr. James Lescoe, the company's pricing actuary for its Individual Medical products.